

Report of the auditor-general to Limpopo Provincial Legislature and council on Makhuduthamaga Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Makhuduthamaga Local Municipality set out on pages ... to ..., which comprise statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, and cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Makhuduthamaga Local Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act 56 of 2003) and the Division of Revenue Act of South Africa, 2018 (Act No 1 of 2018) (DoRA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

7. As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of errors in the financial statements of the municipality at and for the year ended, 30 June 2019.

Unauthorised expenditure

8. As disclosed in note 45 to the financial statements, unauthorised expenditure amounting to R60 197 372 was incurred due to overspending of the budget.

Irregular expenditure

9. As disclosed in note 47 to the financial statements, irregular expenditure to the amount of R67 928 767 was incurred as a proper supply chain management processes had not been followed.

Other matters

10. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

11. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Unaudited supplementary schedules

12. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly, I do not express an opinion thereon.

Responsibilities of accounting officer for the financial statements

13. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA and for such internal control as the accounting office determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
14. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

15. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

16. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

17. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
18. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/ measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
19. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2019:

Development priorities	Pages in the annual performance report
Development priority KPA 2 – Basic service delivery and infrastructure	x – x
Development priority KPA 3 – Local economic development (LED)	x – x

20. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
21. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

Development priority KPA 2 – Basic service delivery and infrastructure

Reported indicators and targets were not consistent or complete when compared with planned indicators and targets

Various indicators and targets

22. The indicators and targets approved in the Service Delivery and Budget Implementation Plan (SDBIP) and the indicators and reported in the annual performance report were not consistent as required by the *Framework for Managing Programme Performance and Information* (FMPPA)

No	Indicators/targets adjusted (SDIBP)	Indicators/targets as per annual performance report (APR)
1	<p>Indicator: Upgrade Marishane Sport complex by 30 July 2019</p> <p>Target: Upgrading of Marishane Sport complex by 30 June 2019</p>	<p>Indicator: Upgrade Marishane Sport complex by 30 July 2019</p> <p>Target: Contractor appointed and site Establishment</p>
2	<p>Indicator: Construct weight bridge at Madibong Land fill site up to the installation of the bridge by June 2019</p> <p>Target: Construction of weight bridge at Madibong Land fill site up to the installation of the bridge by June 2019</p>	<p>Indicator: Construct weight bridge at Madibong Land fill site up to the installation of the bridge by June 2019</p> <p>Target: Installation completed</p>
3	<p>Indicator: Develop detailed designs of Matulaneng access bridge by June 2019</p> <p>Target: Development of detailed designs for Matulaneng access bridge by June 2019</p>	<p>Indicator: Develop detailed designs of Matulaneng access bridge by June 2019</p> <p>Target: Consultant appointed</p>
4	<p>Indicator: Install poles and wiring of mainline for electrifying Moloi village PH 1 by June 2019</p> <p>Target: Installation of poles and wiring of mainline for electrification on Moloi village PH 1 by June 2019</p>	<p>Indicator: Install poles and wiring of mainline for electrifying Moloi village PH 1 by June 2019</p> <p>Target: None (Engagement with Eskom done)</p>
5	<p>Indicator: Construct 0.7 km access road from Sekhukhune DLTC to the bridge up to level of completion stage by June 2019.</p> <p>Target: Construction access road from Sekhukhune DLTC to the bridge by June 2019.</p>	<p>Indicator: Construct 0.7 km access road from Sekhukhune DLTC to the bridge up to level of completion stage by June 2019.</p> <p>Target: 0.7 access road from Sekhukhune DLTC to the bridge by June 2019.</p>
6	<p>Indicator: Development of detailed designs and construct Ga-Mampane access road phase 4 by June 2019.</p> <p>Target: Development of detailed designs and construct Ga-Mampane access road phase 4 by June 2019</p>	<p>Indicator: Development of detailed designs and construct Ga-Mampane access road phase 4 by June 2019.</p> <p>Target: Detailed designs for Ga-Mampane access road phase 4 developed.</p>
7	<p>Indicator: No of H/H waste collection by June 2019</p> <p>Target: 4 by June 2019</p>	<p>Indicator: No indicator</p> <p>Target: 2 Constations reported</p>

Indicators not consistent between integrated development plan and service delivery and budget implementation plan and budget.

Various indicators and target

23. Planned indicators specified in the service delivery and budget implementation plan for the year under review were not included in the integrated development plan submitted for audit purposes.

No	Indicators as per IDP	Indicator as per SDBIP
1	Not included in IDP	Upgrade Marishane sport complex by 30 June 2019
2	Not included in IDP	Electrify 150 at Mogaladi village PH 1 by June 2019
3	Not included in IDP	Install poles and wiring of mainline for electrifying Moloi village PH 1 by June 2019

Performance indicators were not well-defined and targets were not specific, verifiable and measurable

Various indicators

24. The source information and method of calculation for the achievement of the planned indicators below were not clearly defined and targets as determined during planning for these indicators were not specific in clearly identifying the nature and required level of performance and were not measurable and verifiable for delivery as required by the Framework for Managing Programme Performance Information(FMPPI)

No	Indicator	Reported actual achievement per APR	Comments
1	Maintenance and repairs of municipal roads, bridges and storm water by June 2019.	Maintenance and repairs of municipal roads, bridges and storm water done.	The target does not specify the number of municipal road, bridges and storm water planned to be maintained. Furthermore, it does not specify which of those roads, bridges and storm are to be maintained and repaired.
2	Repairs and maintenance of municipal electricity infrastructure by June 2019.	Repairs and maintenance of municipal electricity infrastructure done.	The target does not specify the number of municipal electricity infrastructure planned to be repaired. Furthermore, it does not specify which of those electricity infrastructures are planned to be repaired and maintained.
3	Installation of poles and wiring of mainline for electrification of Moloi Village PH 1 by June 2019.	None (only engagement with eskom done).	The target does not specify the number of poles and wiring the municipality planned for electrifying Moloi village.

4	Repairs and maintenance of other municipal assets.	Repairs and maintenance other municipal assets done.	The target does not specify the number of municipal assets to be repaired and maintained. Furthermore, the targets states "Other municipal assets". It is not specific as to which of those other municipal assets are to be repaired and maintained.
5	Percentage of waste disposed (Number of waste divided by number of waste ton received)	100%	The numerator and denominator are expressed in terms of number of waste and it is not clear on how the municipality calculate the number of waste
6	Construct weight bridge at Madibong Land fill site up to the installation of the bridge	Installation completed.	The municipality reported that "Installation is completed", It is not clear if The reported achievement of installation completed refer to the construction of The weight bridge or The bridge at landfill site
7	Upgrade Marishane Sport complex	Contractor appointed and site establishment.	The target does not specify the type of upgrade. The word "upgrade" is ambiguous as it is not clear what level of performance is required fulfil upgrade
8	Develop detailed designs and construct Ga-Mampane access road phase 4 by June 2019	Detailed designs for Ga-Mampane access road phase 4 developed.	The indicator, in relation to its reported target, is not defined in a manner such that data can be collected consistently for reporting purposes. The data collected for reporting only relates to the development of detailed designs and it is silent about what transpired with regard to the construction of access road for
9	Construct 0.7 km access road from Sekhukhune DLTC to the bridge up to level of completion stage by June 2019	0.7 access road from Sekhukhune DLTC to the bridge.	The reported target is not measurable and verifiable as it only state that 0.7 access road from Sekhukhune DLTC to the bridge. The reported performance does not specify whether the access road is completed or it still working in progress
10	Construct stocking internal street by June 2019	Detailed designs of stocking internal developed.	The indicator refer to construct stocking internal street, however the reported performance relate to the detailed designs of stocking internal developed and not the construction of the stocking road

Performance indicators did not relate logically and directly to an aspect of the realisation of its strategic objectives as per the development priorities.

Various indicators

25. There was no clear and logical link between the indicator and the strategic objective to which it relates. The indicators and related target focused on cultural, social and educational, while the strategic objective aimed to achieve basic service delivery and infrastructural development for the daily life of communities.

Performance Indicators	Measurable objective
No of library awareness campaign held	To promote culture of reading and learning.
No of arts and culture promotions activities held	To promote and sustain cultural heritage
No of sports promotions activities held	To promote healthy lifestyle and social cohesion
Number of traffic vehicles purchased	To enhance law enforcement
No road safety campaigns held	To promote road safety
No of environmental awareness and clean up campaigns	To promote environmental awareness to communities
No of environmental sensitivity area fenced	To conserve natural resources
Number of disaster awareness campaigns held	To educate communities to respond adequately to disaster events
Percentage of disaster relief provided	To provide relieve to disaster affected house hold

Reported achievement did not agree with the evidence provided,i.e not complete

Indicator: Number of cemetery fenced

26. The achievement of target number of cemetery fenced reported in the annual performance report was zero. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of seven.

Indicator: Number of of houses electrified

27. The achievement of target number of houses electrified reported in the annual performance report was 150. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 153.

Development priority KPA 3 – Local economic development

Performance indicators were not well-defined and targets were not specific and measurable

Number of events by June 2019

The planned target for this indicator was not specific in clearly identifying the nature and required level of performance.

Reported achievement did not agree with the evidence provided,i.e not valid and accurate

Indicator: Number of Small Medium and Micro Enterprises (SMME) supported

28. The achievement of target number of SMMEs supported reported in the annual performance report was 7. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 4.

Other matters

29. I draw attention to the matters below.

Achievement of planned targets

30. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year and explanations provided for the under/ over achievement of a significant number of targets . This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs x to x of this report.

Report on the audit of compliance with legislation

Introduction and scope

31. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

32. The material findings on compliance with specific matters in key legislations are as follows:

Financial statements, performance and annual reports

33. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

Material misstatements of non-current assets, current assets, liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Strategic planning and performance management

34. The performance management system and related controls were inadequate as it did not describe how the performance planning, monitoring, measurement, review and reporting processes should be conducted and managed, as required by municipal planning and performance management regulation 7(1).

Procurement and contract management

35. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2). Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the Eenkantane road project.

Expenditure management

36. Reasonable steps were not taken to prevent irregular expenditure amounting to R67 928 767 as disclosed in note 47 to the annual financial statements, as required by section (1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance in relation to SCM.
37. Reasonable steps were not taken to prevent unauthorised expenditure as required by section 62(1)(d) of the MFMA. The majority of the disclosed unauthorised expenditure was caused by overspending on specific vote.

Consequence management

38. Unauthorised expenditure incurred in the prior year by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
39. Some of the fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Other information

40. The accounting officer is responsible for the other information. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.
41. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
42. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
43. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

44. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in opinion, the findings on the performance report and the findings on compliance with legislation included in this report.
45. Management did not implement adequate review and monitoring process to ensure that accounting records are properly maintained and annual financial statements agree to the accounting records.
46. The municipality did not adequately design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.
47. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored by management
48. The annual performance report was not supported and evidenced by reliable information. This was mainly due to lack of standard operating procedures for the collection, collation and verification of performance information.
49. The internal control monitoring mechanisms of the internal audit are not functioning optimally, as many control weaknesses are only uncovered during the audit of the financial statements and performance information.
50. An effective record-keeping system was not in place to ensure that information was retrieved within a reasonable time and that the financial statements and performance reports were supported by valid and accurate

Auditor-General

Polokwane

30 November 2019



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Makhuduthamaga local municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

